

Tamilnad Mercantile Bank

Banking | India

IPO | 05 September 2022

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Regional Banking Play

About the Company

Tamilnad Mercantile Bank (TMB) was incorporated in 1921 as Nadar Bank Ltd. and is one of the oldest private sector banks in India. Bolstered by its strong portfolio of advances and deposits from a diversified customer base including retail customers, agricultural customers, and MSMEs, the company offers an array of banking and financial services to retail customers, MSMEs, etc. The company is coming out with an IPO of Rs8.4bn, the market cap at higher band is seen at Rs84bn.

~100 Years of Track Record

The company has a Long-term track record with almost 100 years of history. The bank has participated in various government sponsored schemes in order to extend its support to the society. Moreover, the bank has also tied up with reputed training institutions like SIBSTC-Bengaluru, NIBM-Pune and IIBF-Mumbai among others. It has a strong presence in Tamil Nadu and backed by diversified and loyal customer base and a growing deposit base with a focus on low-cost CASA.

Southern Specific Branch Network

As of Mar'22, the bank has a strong branch network of 509 branches and a total customer base of 5.08mn. TMB has a significant market presence in the state of Tamil Nadu with 369 branches, and is also present in 15 other states and 4 union territories of India. The company added 9 new ATMs and 22 new CRMs during FY22. It also added 52 new e-lobbies. The bank's ATM and alternate delivery channel network stood at 1141 ATMs, 282 CRMs and 101 e-lobbies. The company is aiming to expand its reach even further in the coming years. The banks has correspondent relations with 405 overseas banks by the exchange of bilateral keys under the SWIFT.

Improved Asset Quality

TMB has improved asset quality by focusing on secured advances, high loan to value ratio, diversification, low concentration across branches and more stringent audit procedures for sanction of the loans. The risk assessment, mitigation and management measures towards reducing NPAs and managing stressed assets portfolio is key parameter for TMB. Apart from continuously monitoring loans during their tenure, it also conducts various audit processes such as stock audits on working capital facilities. It also intends to reduce our NPAs by continuing to offer various schemes of settlement to address the issues specifically faced by small ticket borrowers.

Financials in Brief

The loan book has clocked ~8% CAGR during FY19-22 to Rs335bn in FY22. The strategy of TMB is focusing on the RAM (Retail, Agri, MSME), which has clocked CAGR of 13% during FY20-22. TMB's growth being concentrated within Tamil Nadu which contributes 76% of advances. The cost of deposits for TMB is relatively on the higher side, while the net interest margin is healthy. TMB performed well over the last two years despite the pandemic led disruptions. During FY20-22, its NII clocked 17% CAGR to Rs18.1bn in FY22, while PAT grew by 42% CAGR to Rs8.2bn in FY22 led by other income. Total deposits were up 10% YoY to Rs449.bn while total advances increased 8% YoY to Rs335bn. During FY22, the net NPA of the bank decreased to 0.95% against 1.98% in FY21 while gross NPA, came down to 1.7% from 3.4% in FY21.

Our View

The IPO is valued at 1.6x FY22 Book. TMB is one of the oldest banks with 100+ years of legacy. TMB focussed on diversifying product portfolio to access more client base. It continues to expand relationship banking facilities to increase network. It intends to focus more on fee-based products such as issuing debit cards, credit cards, insurance, online bill payment, DP services, etc. **In view of its improving assets quality, lower NPAs, focus on strategic expansion, growing deposit base with a focus on low-cost retail CASA, strong financial track record and valuation comfort, we recommend a 'SUBSCRIBE' to the issue.**

IPO Details

Price Band (Rs)	500-525
Face Value (Rs)	10
Issue Open/Closing Date	5-Sep-22/7-Sep-22
Fresh Issues (mn)	15.8
OFS (mn)	-
Total Issue (mn)	15.8
Minimum Bid Qty. (Nos)	28
Issue Size (Rs bn)	8.32
QIB / HNI / Retail	75%.15%/10%
*Implied Market Cap (Rs bn)	83.1
<i>*At a higher band</i>	

Object of the Issue

- ▶ To augment tier-I capital base to meet future capital requirements.
- ▶ Listing benefit

Key Risk

- ▶ Regional Concentration in Southern India, especially Tamil Nadu.
- ▶ Increase in NPAs
- ▶ Issued notices and initiated various recovery proceedings against defaulting borrowers under the SARFAESI Act.
- ▶ Contingent liabilities exceed the net worth.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	-	-
Others	100.0	100.0

Key Financials

(Rs mn)	FY20	FY21	FY22
NII	13,195	15,375	18,152
Pre Provisioning Profit	9,950	12,022	15,268
PAT	4,077	6,033	8,219
PAT Margin (%)	30.9	39.2	45.3
EPS (Rs)	25.7	38.1	51.9
Book Value (Rs)	251.3	289.2	337.0
PBV (x)	2.1	1.8	1.6
P/E (x)	20.4	13.8	10.1
RoE (%)	10.2	13.2	15.4
RoA (%)	1.0	1.3	1.7

Source: RHP

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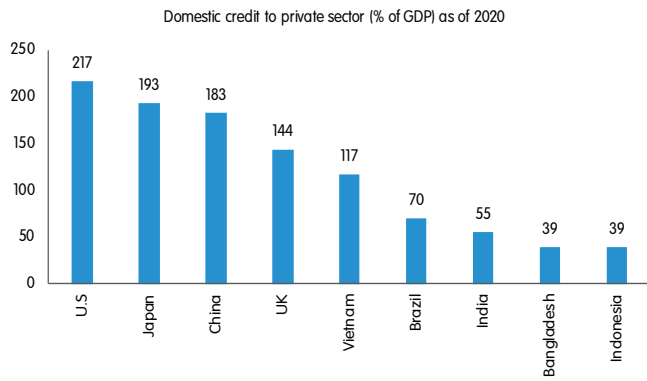
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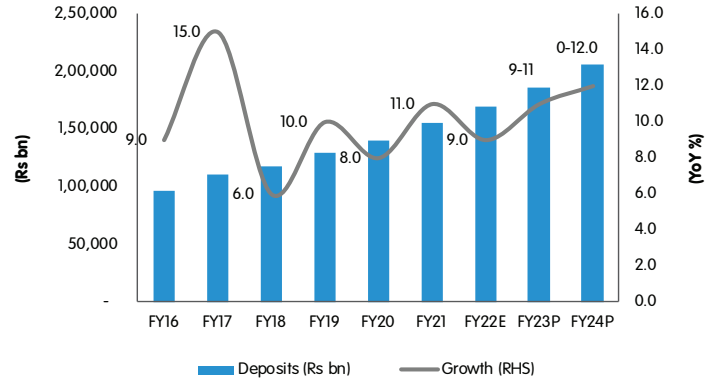
Email : anirvan.divakera@relianceada.com

Exhibit 1: Domestic credit to private sector (% of GDP) as of 2020



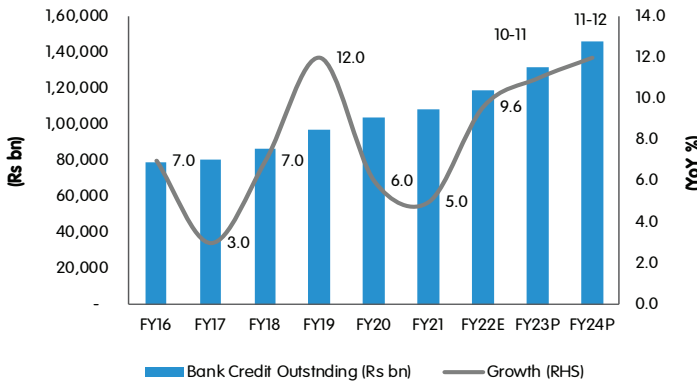
Source: World Bank

Exhibit 2: Deposit Growth



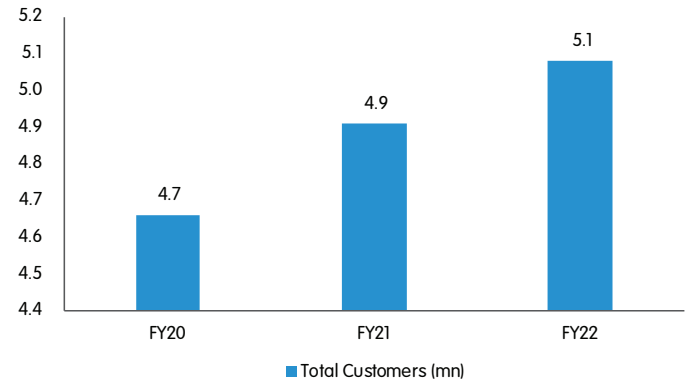
Source: RBI, CRISIL Research

Exhibit 3: Credit Growth



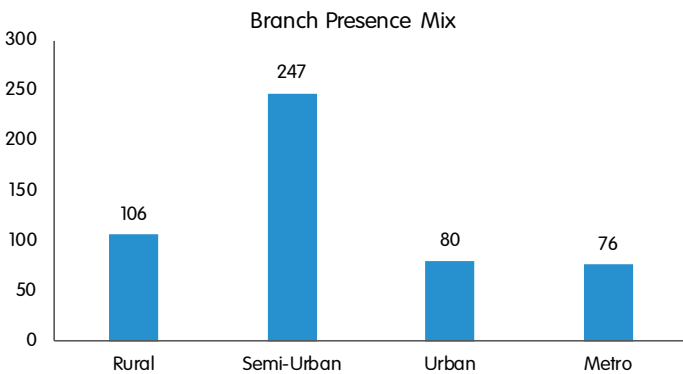
Source: RHP

Exhibit 4: TMB: No of Clients



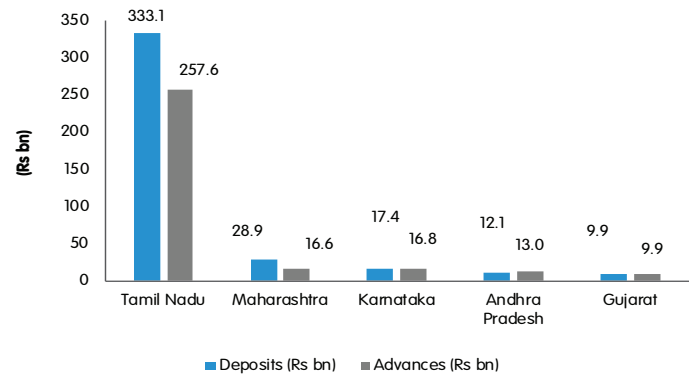
Source: RHP

Exhibit 5: TMB: Branch Presence



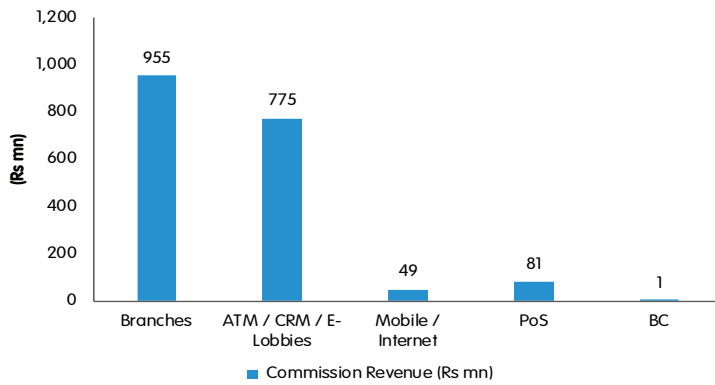
Source: RHP

Exhibit 6: TMB: Distribution of Advances and Deposits as of FY22 (Top 5 States)



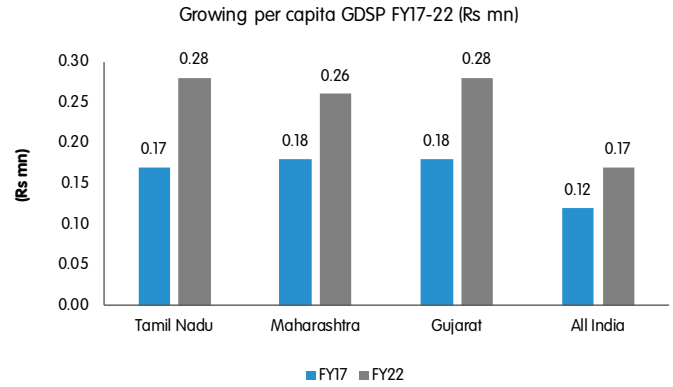
Source: RHP

Exhibit 7: TMB: Commission Revenue



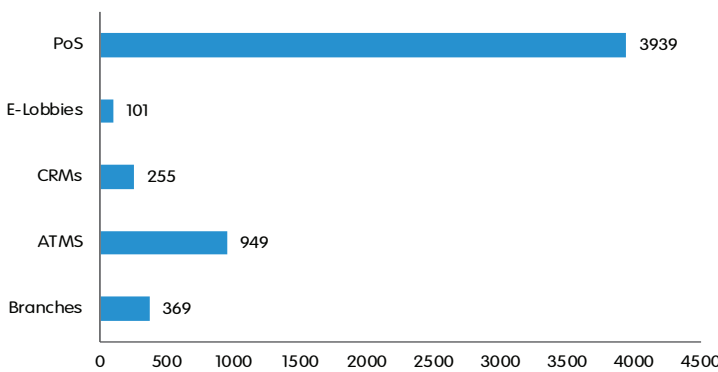
Source: RHP

Exhibit 8: Tamil Nadu has good potential for growth



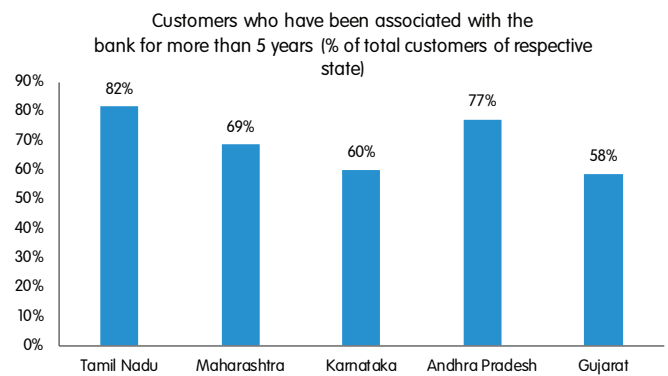
Source: CRISIL Research

Exhibit 9: TMB has a strong Presence in Tamil Nadu



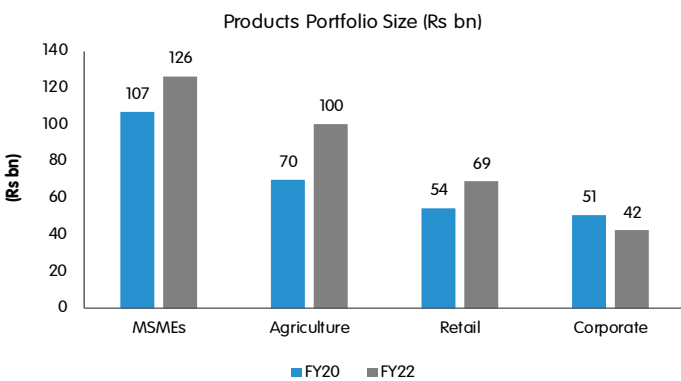
Source: CRISIL Research

Exhibit 10: TMB: Loyal Customer Base



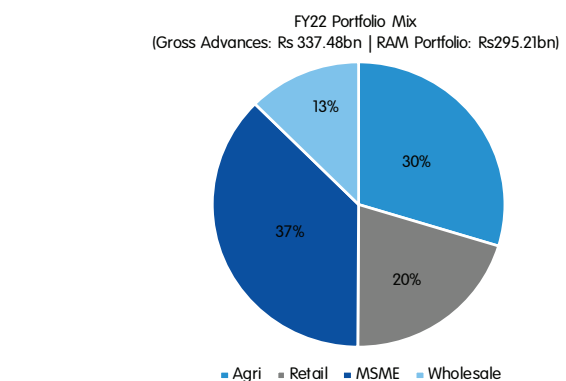
Source: RHP

Exhibit 11: Products of TMB



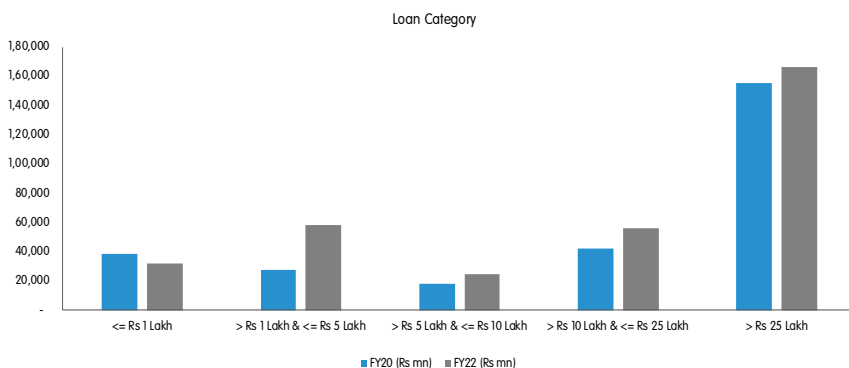
Source: RHP

Exhibit 12: TMB: Focused Approach of Small Ticket Sizes to RAM Customers



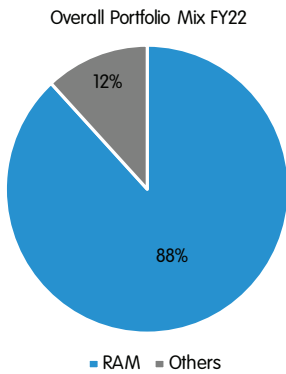
Source: RHP

Exhibit 13: TMB: Increased Focus on Small Ticket Size



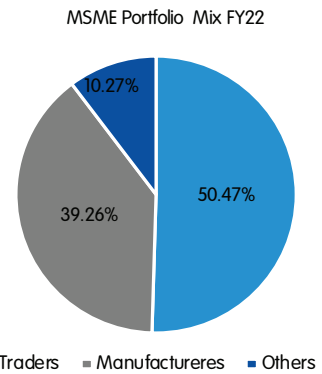
Source: RHP

Exhibit 14: TMB Overall Portfolio



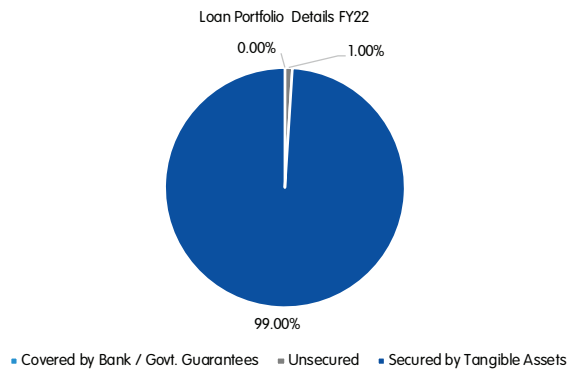
Source: RHP

Exhibit 15: TMB MSME Portfolio



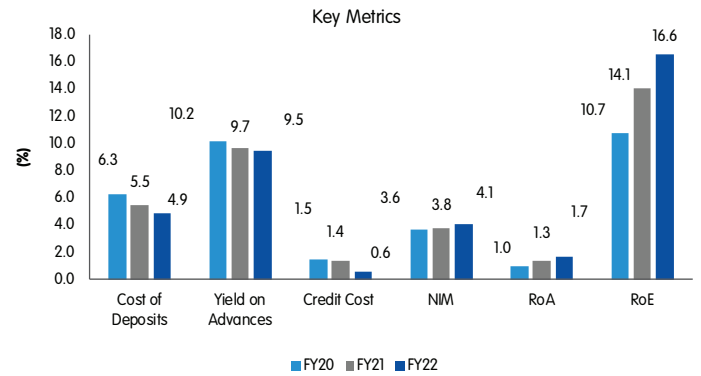
Source: RHP

Exhibit 16: TMB Loan Portfolio



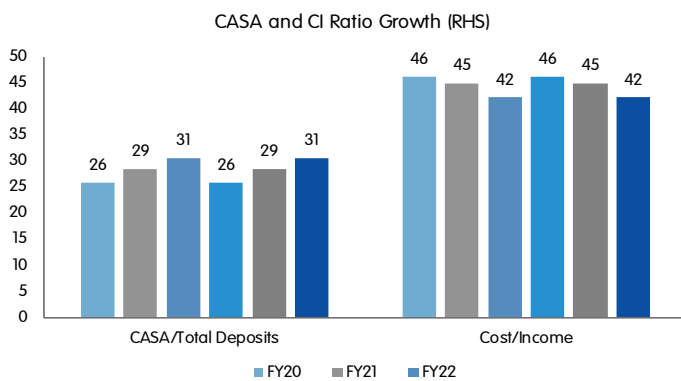
Source: RHP

Exhibit 17: TMB: Key Metrics



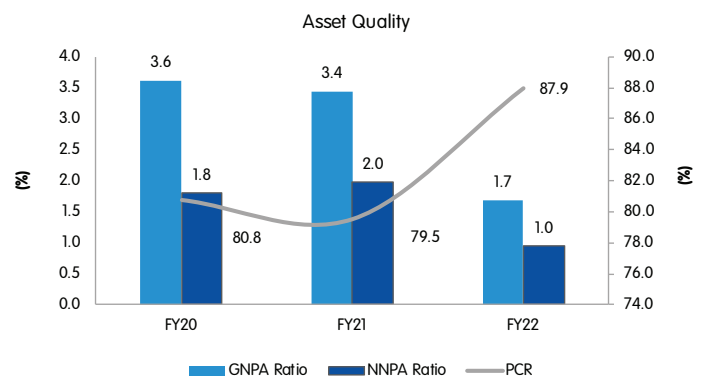
Source: RHP

Exhibit 18: TMB: Key Metrics



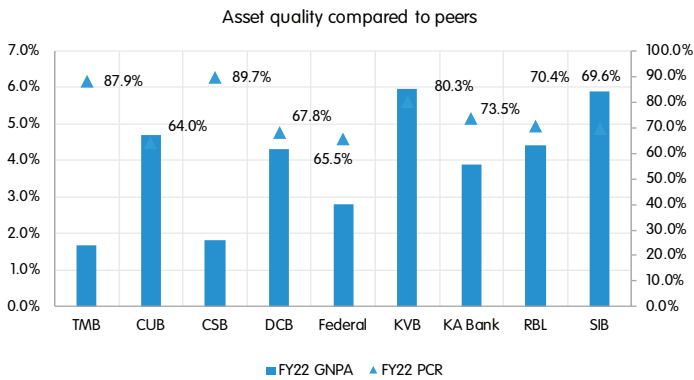
Source: RHP

Exhibit 97: TMB: NPA



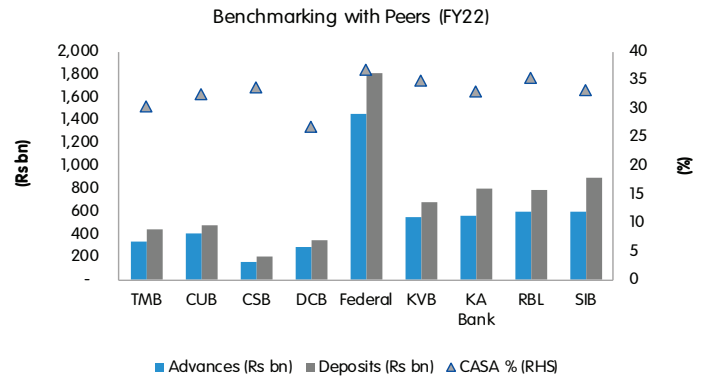
Source: RHP

Exhibit 20: TMB compares favourably versus peers on asset quality



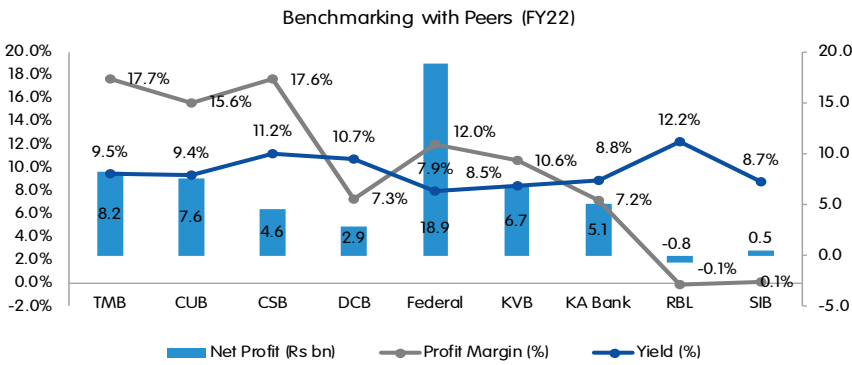
Source: RHP

Exhibit 21: Benchmarking with Peers (FY22)



Source: RHP

Exhibit 22: Benchmarking with Peers (FY22)



Source: RHP

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